BC**PROGRESS**BOARD

RESTORING BRITISH COLUMBIA'S ECONOMIC HEARTLAND

to the

BC Progress Board

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BC PROGRESS BOARD

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RESTORING BRITISH COLUMBIA'S ECONOMIC HEARTLAND

EXECUTIVE SUMMARY

In its initial benchmarking report, the Progress Board set targets to restore BC to an economic leadership position within Canada by 2010. These targets are set at a challenging time in the province's history. Rebuilding BC's regional economies is critical to efforts to improve overall provincial performance. While GDP, productivity, corporate profits and personal income have all declined in relative terms across the province, Region 250 has been hit harder than the province's urban areas – areas that generally kept pace with average annual economic growth rates for Canada during the 1990's.

The Panel report begins with recognition of this dichotomy and is firmly grounded in the proposition that the province's regions – referred to throughout the report as Region 250 (corresponding roughly to the 250 telephone area code) – are in fact the heartland of the provincial economy, not the hinterland as often portrayed. Fully sixty percent of BC's export base comes from Region 250. And 72 percent of the value of BC's international goods exports is produced in Region 250.

The Panel is struck by just how dedicated Region 250 communities are to their own survival. They believe in a vision of a prosperous future and are ready to make the tough choices necessary to realize it. With abundant resource endowments, a high quality of life, and a population committed to using their knowledge to solve problems and spur growth, Region 250 has the tools necessary to succeed in the 21st Century. The Panel's report details a three-pronged approach to ensure that challenges currently facing Region 250 are overcome.

First, we must restore the wealth generating capacity of the land base. Government is encouraged to pursue market-based reforms within the forest industry including private-like forms of tenure allocation and the creation of a robust timber and log market. The Panel also encourages government to experiment further with community-based tenures where suitable. For the tourism industry, obtaining secure access to the land base for commercial purposes, transportation accessibility issues, and insufficient levels of expenditure on marketing all require attention from provincial authorities. Turning to mining, regulatory decision delays, coupled with continued uncertainty over access to and the use of the provincial land base for exploration purposes continues to hamper development potential. Here, as with other resource industries, there is a need to provide further certainty by bringing to a conclusion the Land and Resource Use Management Planning process and continuing to be vigilant in ensuring a competitive regulatory structure. The province's oil, gas, coal and energy industries hold considerable promise as a means to generate additional basic income. The Panel encourages the provincial government to pursue development of offshore oil in Northwest BC and development of BC's vast reserves of coal-bed methane. A few large-scale land-based projects accessing private capital could provide very positive economic stimulus in Region 250.

Lack of certainty over land use, coupled with only modest progress in building Aboriginal-business partnerships and concluding modern day treaties, is inhibiting the development of crucial capacity in many communities and is hindering tangible economic development opportunities in Region 250. Making progress in this area requires government focusing more attention on providing clear and consistent principles for consultation when resource development is involved, encouraging the business community to strengthen business-Aboriginal partnerships, and continuing efforts to conclude modern day treaties where possible. In the meantime, non-treaty interim solutions must be given higher priority to spur economic development.

Second, renewal will require nurturing new pathways in regional economic development through pursuing a variety of "price setting" strategies that involve secondary production, product differentiation and branding. Intensive data analysis conducted as part of the Panel's review indicates that while forestry is the only advanced industry cluster apparent within "Region 250", there are embryonic signs of clustering in: information and human capital-based industries; recreation and tourism; and, specialty agriculture. Nurturing new pathways in regional economic development and rejuvenating the wealth generating capacity of the land base will require extensive new business investment in Region 250. In this connection, the government should begin efforts to communicate to international capital markets the changed and durable nature of the province's new investment climate. This includes focusing efforts to build a one-window web-based portal to attract new investment, creating a "virtual investment centre" seamlessly integrating agencies and industry associations with a stake in investment promotion, along with other traditional approaches such as trade missions and provision of investment intelligence. Any government effort must include the regions themselves in economic development. Allowing Region 250 more capacity to utilize their own resources – physical, human and economic – must be given priority. With this in mind, the Panel believes the government should consider instituting a "resource dividend" which would see a portion of provincial resource revenues returned to fund strategic infrastructure and research and development activity that will contribute to furthering economic growth in Region 250. An independent board of business and community interests could administer the funds to wherever possible, leverage federal, municipal and private funds.

Third, the government must maintain and improve supportive education, transportation, and communications infrastructure that – first and foremost – enhance the prospects for spurring economic growth. BC has a high quality K-12 education system, but regional disparities in completion rates and performance outcomes need attention. Special consideration should be given to raising the involvement of Aboriginal learners. Local access and capacity constraints in the Okanagan, along with looming skill shortages, and the need for research driven economic development in Region 250 mean that the government should consider extending the mandate of an existing provincial University to Kelowna. On the trades and technical side, the Panel believes that government should consider extending the mandate of the British Columbia Institute of Technology to Kelowna and Prince George, two budding Region 250 agglomeration economies. Turning to transportation, Region 250 interests expressed considerable concern that deteriorating and inadequate transportation and communications infrastructure may be inhibiting growth. Monopoly service provision in air transportation argues in favour of the provincial government pressing federal counterparts to work towards reciprocal cabotage for Canadian and US carriers. Efforts to improve BC Rail should focus on efficient, market-driven freight service provision. The provincial government should also continue to work with local community interests affected by the closure of BC Rail passenger services to identify sustainable commercial alternatives. Over the long run, ferry service should be maintained and enhanced within Region 250. The Panel also encourages the government to maintain and enhance provincial highways by incrementally restoring per capita provincial funding to 1991 levels. Funding constraints for strategic and economically productive transportation and communication projects should be addressed through: public-private partnerships; leveraging provincial and municipal funds; and, general revenue.

With this carefully targeted approach the Panel strongly believes that Region 250 can – and will – continue to play a vital role in a thriving and prosperous British Columbia.

RESTORING BRITISH COLUMBIA'S ECONOMIC HEARTLAND

I. INTRODUCTION

In July 2001, Premier Gordon Campbell formed the BC Progress Board[1], an independent Panel of fifteen senior business and academic leaders. The Board is mandated to benchmark BC's performance over time and relative to other jurisdictions and to provide the Premier with strategic advice on ways to improve the performance of BC's economy and its social policy supports. The Board issued its 2001 Report last February, and will report again to the Premier this December.

The Board was struck by findings in its initial benchmarking report demonstrating that our regional economies have fallen well behind the Lower Mainland on most measures of economic and social performance. In line with its mandate, and as part of its 2002 work plan, the Board established a Panel on Regional Economies[2] called *Project 250* (indicating the portion of the province covered by the "250" telephone area code, i.e. beyond the Lower Mainland and Victoria).

The Panel's work began with the recognition of this dichotomy, and is grounded in the proposition that the province's regions are in fact the heartland of BC's economic fabric, not the hinterland as often portrayed. Most (60%) of BC's export base comes from Region 250. And, even though the industrial structure of Region 250 economies differ significantly from the Lower Mainland, these two facets of BC are inextricably linked.

The provincial government has taken significant strides towards improving the province's investment climate at the macro level through significant taxation, regulatory and other reforms. The task now is to take further steps to revitalize the wealth generating capacity of the land base, to build new sources of competitive advantage, and to advance new and emerging sources of income and employment.

The Panel's work has involved several inputs, which are rolled up into this report[3]. These include:

- Progress Board staff wrote to local Mayors, Regional District Chairs, local Economic Development Officials, selected industry associations and Chambers of Commerce throughout the province to solicit views on opportunities for, and challenges to, economic growth and improving regional performance. Board staff prepared a consultation summary, and this input is incorporated thematically throughout this report;

- An extensive literature review was conducted on regional economic trends and developments. This work also looked at 'best practices' and lessons from other jurisdictions that have experienced challenges similar to those confronting BC;

[1] A list of BC Progress Board Members is detailed in Appendix B.
[2] A list of Project 250 Expert Panel members is detailed in Appendix A.
[3] A list of Project 250 Inputs is detailed in Appendix C.

- The Panel commissioned detailed quantitative work on existing and emerging growth drivers within Region 250, and versus the Lower Mainland and Victoria, to enhance our understanding of where opportunities currently exist, and how this portends for future growth prospects;

- The Panel commissioned a study on Transportation and Communication infrastructure with particular emphasis on Region 250; and,

- Working concurrently with *Project 250*, another Progress Board Expert Panel has considered critical province-wide issues in *Education, Skills, Training and Technology Transfer (ESTTT)*. The ESTTT Panel's key findings and recommendations relating to Region 250 are noted within the report that follows.

Consultations with Region 250 interests confirm that regional communities believe strongly in their own future. As global economies undergo change, people within our regions realize that they must also. The Panel believes that confronting the challenge involves three essential dimensions: 1) Restoring the wealth generating capacity of our land-base; 2) Nurturing new economic development pathways; and, 3) Providing supportive education, transportation and communications infrastructure to unleash regional economic growth opportunities.

This report examines this three-fold approach, and the various actions needed to improve the performance of our regional economies and the quality of its social experience. We begin by outlining the differing performance of urban and regional British Columbia from a broad economic and social standpoint, and by examining the performance of these two dimensions of BC by industry sector.

II. Regions 250 & 604: The Anatomy of the Problem

In its inaugural report of February 2001, the BC Progress Board established its benchmarks (or Core Targets) for the provincial economy – to restore BC to a leadership position in Canada by 2010 by ranking first or second in real GDP per capita; real disposable income per capita; and, the employment to population ratio for those aged 15-64. Similar targets were established for environmental quality, health status and social condition. These objectives come after a decade in which B.C. declined in real terms in per capita GDP, productivity, capital stock, corporate profits, and personal disposable income. The province (except in certain sectors like real estate) essentially slipped off radar screens in business capitals and financial centres around the world.

Having deteriorated relative to Canadian provinces during the 1990s, the requirement for B.C. to meet its 2010 targets is accelerated development. Over this decade, average annual growth in real GDP in Canada is projected to be 3.0 per cent (vs. B.C.'s 1997-2001 average of 2.2%). For B.C. to meet and surpass the national level, real GDP in Region 604 (the Vancouver Census Metropolitan Area – "CMA") must expand by about 4.5 per cent a year, and in Region 250 by at least 3.0 per cent annually (vs. the 1997-2001 rate of 1.4%). This report will examine methods of revitalizing Region 250's economy in order to reach this goal, beginning with a brief analysis of current economic conditions and growth patterns in the region.

Benchmarking Broad Economic and Social Performance

The Progress Board's main benchmarking report[4] gives a detailed analysis of the lagging performance of Region 250 on an array of social and economic indicators. For 2001, preliminary information suggests that in fully 12 out of 17 top line comparisons, Region 250 under-performs relative to the Lower Mainland, and in most cases also places well back of the Victoria CMA (where data is available)[5]. Included are performance indicators of economy, innovation, education, environment, health and social condition.

Despite the obvious disparity between economic and social conditions in rural and urban BC, industries in Region 250 continue to play a vital role in wealth generation for the provincial economy. The BC economy as a whole is heavily export dependent, with equivalent to one-half of the province's 2001 GDP of $130 billion derived from goods and services exports. In 2001, industries located primarily in Region 250 were responsible for 72% of the value of BC's international goods exports and roughly 60% of the province's total exports in goods and services. Region 250 also leads in 16 of the province's top 25 export categories including all of the top 10 exports.

Sector Performance 1997 to 2001 - Where Has Growth Occurred?

Despite the continuing importance of exports originating from Region 250 to BC's overall economic well-being, many of the region's traditional industries have stagnated in recent years with relative growth rates falling in comparison to other industrial sectors. A closer examination of growth industries from 1997 to 2001, as measured by GDP per industry, lends insight into the sectoral nature of the disparity between regional and urban BC.

BC's leading growth industries share some distinct commonalities. First, they are almost without exception concentrated in Region 604, the Vancouver CMA. Second, these industries are products of change, be it market dynamics, recent technologies or relative production costs. Third, most have reached the expansion stage at which they have begun to "cluster", as described below. Many of the province's leading industries also export their products.

Clustering is an important process in economic growth whereby like or inter-related industries locate near one another in order to take advantage of similarities of needs such as material and service inputs, inter-industry trade flows, specific labour skills, amenities, energy supplies, or transportation access. Through clustering, industries become less reliant on imported goods, services and labour with domestic resources expanding to meet demand, thus driving further economic growth. While clustering is evident in the Vancouver CMA (in human capital, manufacturing, culture and information, and tourism and recreation) this effect has thus far only occurred at advanced levels in one Region 250 industry – forestry.

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[4] BC Progress Board, 2001 Report, February 14, 2002.

[5] While the '250' designation is frequently utilized, statistical measures such as economic indicators, population and employment do not match this convenient designation with precision. Therefore, much of the data used in the work of Project 250 – and included within this report – have been developed for three regions: the Vancouver CMA, Victoria CMA and Region 250.

Leading growth industries for the province as a whole include computer systems design, motion picture and sound recording industries, and information services. Manufacturing accounts for fully 10 of the top 20 leading industries – all industries that are predominately based in Region 604. Measured by real GDP, these "growth" industries have grown at an average annual rate of at least 5 percent, or twice the provincial average. Indeed, the industrial structure of the Vancouver CMA has transformed significantly, turning over its leading set of growth sectors three times in the last 15 years: the last of the resource-led expansions from 1985-1989 was followed by the real-estate and construction boom – stimulated by high levels of net in-migration – from 1988-1996, replaced most recently by the growth of new advanced services and manufacturing industries from 1995 to the present.

Of those industries that experienced negative or slow growth during the same 1997-2001 period, all (with the possible exception of "other activities of the construction industry") were predominately located in Region 250. In fact, with the exception of oil and gas, all of the key industries in Region 250's export base – forest products, mining, primary metals, electric generation, and fishing and seafood products – failed to significantly expand their output value between 1997 and 2001, with many actually experiencing declines (see table below).

Selected BC Industries with Low GDP Growth between 1997 and 2001 ($millions, 1997 Prices)

NAICS		1997	1998	1999	2000	2001	1997-2001 % change	Average Annual % change
3221	Pulp, paper and paperboard mills	1,481	1,405	1,587	1,710	1,524	2.9	1.2
2121	Coal mining	670	634	642	651	697	3.9	1.1
33A0	Primary metal and fabricated metal product manufacturing	1,195	1,243	1,245	1,322	1,217	1.8	0.6
2200	Utilities	2,468	2,474	2,511	2,633	2,434	(1.4)	(0.2)
321*	Wood product manufacturing	3,552	3,448	3,717	3,798	3,412	(3.9)	(0.8)
114	Fishing, hunting and trapping	201	168	166	158	171	(14.8)	(3.5)
2123	Non-metallic mineral mining and quarrying	106	99	94	96	85	(19.6)	(5.2)
230E	Electric power engineering construction	204	227	206	181	146	(28.8)	(7.5)
230I	Other activities of the construction industry	45	38	37	33	32	(27.9)	(7.6)
3117	Seafood product preparation and packaging	160	116	92	89	82	(48.7)	(14.8)

** BC Stats estimate*

Sources: BC Progress Board, CCG Consulting Group, Statistics Canada

A study of annual average rates of job growth by industry shows a similar impact on regional economies during the 1997-2001 period. For the province as a whole, sectors with the most rapid growth in job rates are management and administrative; professional, scientific and technical; and information, culture and recreation – all industry sectors which are predominately located in urban centres with high degrees of knowledge-intensity.

Agglomeration - Trends and Consequences

During the 1980s and 1990s, BC's economic development has been oriented to the Lower Mainland, Vancouver Island and the Okanagan. Between 1981 and 1991, 360,000 net new jobs

were created in BC. All but 1,000 were in these three areas. A preliminary look at 2001 census information (except for certain areas) confirms that this pattern continued during the 1990s. Region 604 also has a much more diversified export base than two decades ago, while Region 250 has not diversified to nearly the same extent. This pattern of rural-urban migration – or agglomeration – is widespread among post-industrial economies.

Agglomeration economies arise from the close proximity of a complex system of inputs, lower transaction costs and output and employment clustered in larger centres. Absolute or partial de-industrialization of more peripheral areas often occurs as a result. A large portion of Region 250 economic activity takes place in the four largest census urban areas (CUAs) – Kamloops, Kelowna, Nanaimo and Prince George. Over the last 20 years these areas have expanded their trading and service area functions to become dominant in transportation, wholesale and distribution, business and professional services, education, health, retail trade and public administration; all these activities, typically characteristic of large urban centres, have grown in these four centres, largely at the expense of smaller communities. Yet, despite these trends the majority of export industries continue to reside in smaller communities. The Panel believes that generating economic activity in these communities is of paramount importance. Without the solid export base they provide, CUAs in the regions will decline, as will, to a lesser extent, the fortunes of the Vancouver and Victoria CMAs.

Fundamentally, BC is a small open market economy where "what it sells" and at "what price" is critical. The Panel believes that options and opportunities for Region 250 need to be initially generated internally, as BC as a location for investment has been off the "radar screen" of major business and investment centres for at least 10 years. From there, capital will be attracted to BC, which in turn will generate further activity. Generating internal options and opportunities must begin with revitalizing the wealth generating capacity of the land base while also creating the necessary conditions to encourage emerging growth industries – both of which the Panel will address in subsequent sections.

Summary:

- Region 250 accounts for roughly 60% of BC's total exports in goods and services and is the primary source of all of the top 10 export categories, but the region continues to lag Region 604 (Vancouver CMA) on 13 of the 17 key indictors of social and economic performance included in the Progress Board's annual benchmarking report;

- Although they continue to generate a significant proportion of the province's basic income, Region 250 key industries are under-performing relative to historic levels and their contribution to aggregate regional employment has decreased significantly; few of the province's growth industries have an economic presence in Region 250;

- While a number of Region 250s census urban areas (CUAs) have benefited from rural-urban agglomeration, the continued growth of these areas will be highly dependent on the wealth generating capacity of smaller communities and land-based industries; and,

- Options and opportunities for Region 250 need to be generated internally beginning with revitalizing the wealth generating capacity of the land base, while nurturing emerging growth clusters.

III. Revitalizing the Wealth Generating Capacity of the Land Base

Natural resources have been at the heart of British Columbia's economic development throughout its history and continue to be a key driver of growth for the province today. However, in recent decades the ability of the province's massive resource endowment to drive provincial economic growth has been constrained by a number of complex and interconnected forces such as global commodity price declines, increased environmental sensitivities, increased land use regulation and project approval delays, inconclusive land use planning processes, and not least, unresolved Aboriginal land claims. Fundamental reforms are required to restore the wealth generating capacity of the land base. We begin with forestry.

Forestry

For much of BC's history, the vast economic rents associated with our natural resource endowments have provided a source of steady and relatively high incomes. Nowhere is this more apparent than in forestry, BC's leading economic driver.

Over the last decade, relative employment levels have fallen, the contribution of the industry to provincial revenue has decreased and the continued existence of many rural communities has been threatened. Still, the industry is of critical importance to Region 250 and the province as a whole. Forest products are BC's leading export and generate much of the economy's basic income which then induces further spending on goods and services. It accounts for more than one half of all manufacturing, over 100,000 jobs, and approximately one-quarter of the top 100 head offices in BC. Estimates of the industry's contribution to provincial GDP range from 15-25 percent.

The Panel believes these facts speak for themselves. There is simply no other economic driver with as much potential for reinvigorating Region 250. And as noted previously, it is the only industry to have achieved advanced stages of clustering in Region 250. Though the recent climate of crisis within the industry has been exacerbated by the softwood lumber dispute with the United States, closer examination reveals that the industry has long-suffered a series of interconnected difficulties. A few of these include:

- During the 1990's, there was a significant change in the "super-stumpage", the Forest Practices Code, and various land use policies that served to reduce access to and increase the relative cost of fibre;

- As a result of regulatory changes, BC operators have experienced higher delivered wood costs, diminished profits, mill closures and layoffs; and,

- The BC industry has failed to earn an acceptable return on capital employed for the past 10 years, has been unable to attract new capital, and has lost market share in the US and elsewhere.

Structural problems permeate the entire industry, but are more acute within the Coastal segment than the Interior. Other big picture threats to the continued viability of BC's forest industry – which have already reduced harvesting on the land base – include uncertainty over Aboriginal land claims and continued pressure from the environmental movement (especially on the Coast), increasing competition from wood and non-wood substitutes, and reliance on the declining value of the Canadian dollar (rather than productivity improvements) to remain competitive internationally. The Mountain Pine Beetle epidemic is also cause for significant concern in several regions of the province.

> ***"By involving ... government in this (pine) beetle control effort and implementing a new appraisal system (stumpage rates) which prices timber at competitive rates, the performance of northern BC's economy will be restored."***
>
> *Northern Forest Products Association*

Perhaps the largest challenge confronting the industry is the "knock-on" or cumulative effect that all of the aforementioned challenges have on the attractiveness (or lack thereof) of the forest products sector to institutional and private investors. Over the latter part of the 1990's, valuations of the forest products sector have declined by more than 50 percent in the TSE 300 Composite Index. Without dramatic change, the Panel is convinced further decline in the economic contribution of the forest industry is inevitable. Indeed, "progress" may in the short-term amount to simply halting further decline.

The time has come for 'enlightened realization' that the forest industry has long-suffered from the pursuit of social and political objectives, more often than not disconnected from the economic realities of the day. For its part, industry must demonstrate a willingness to move beyond traditional and *status quo* business models and engage in more active problem solving with government.

The Panel believes that movement towards private-like forms of tenure allocation and a timber and log market must guide reform efforts. In the past, all parties (government, business and other interests) have ignored the stricture of market discipline. Provincial and federal authorities should pursue a range of policy and regulatory options where forest companies are treated more like businesses in other industries. In other words, the discipline of market-based principles should be applied to the greatest extent possible.

Finally, comprehensive land claim settlements with Aboriginal interests must be pursued as a matter of social obligation, legal necessity and business certainty. These agreements will take years to complete, but government and industry should actively consult and engage Aboriginal interests to advance wealth creation and employment prospects in Region 250.

Tourism

Tourism currently accounts for 4.8% of the province's GDP and 7% of the province's employment.[6] It also holds promise for further employment growth as extractive industries continue to replace labour with capital. Many tourism operators are small local and/or family-run operations, drawing heavily from local labour forces for employment. The rapidly growing areas of adventure and eco-tourism (11% annual growth) are perfectly tailored to rural BC's unique resource base. Yet despite considerable upside opportunities the industry faces some severe challenges. The Panel has taken note of three critical ones.

> ***"Good transportation infrastructure is vital for tourism. If the tourism industry is to survive in regional BC, the province must have transportation choices that are affordable and accessible."***
>
> *Council of Tourism Associations (COTA)*

First, while different than the challenges confronting resource-based industries, effective land use policies are key to supporting commercial tourism activity. The industry – especially in Region 250 – is heavily dependent on what is perceived globally as the "BC Experience": natural wilderness, scenery, wildlife, and biological diversity. Without a secure land base, and the continued ability to provide these attractions, BC's tourism experience will not be sustainable.

Second, there is rigorous competition for the tourism dollar. However, the province currently spends significantly less on tourism promotion, market research and analysis than do most competing jurisdictions. This spending gap is likely inhibiting further industry growth. And, despite BC's natural beauty and endowments, other jurisdictions also have unique features and product offerings. BC's industry operates in a global reality where consumer mobility is a constant and competing with other regions and destinations for visitor dollars is a reality. The Panel believes that BC has a world-class tourism product but without sufficient efforts to both sustain the product and communicate its advantages, wealth-generating capacity will be severely limited.

Third, education and transportation access – though covered at length elsewhere in this report – have particular relevance for tourism. Skills shortages threaten the ability of the industry to continue to grow and realize its potential in Region 250. Meeting future growth in tourism demand, and continuing to provide a quality and competitive experience for visitors, will require training in specialized skills, customer service, and small business management in many areas of Region 250. Accessible and affordable transportation infrastructure is also essential for a viable tourism industry in BC, especially in Region 250. Unless tourism activity is accessible and cost competitive with similar experiences in other jurisdictions, many consumers will go elsewhere.

Mining

Mining has played a critical role in the development of BC's economy since the mid-1800s, and continues to be important today. Despite extreme vulnerability to cyclical commodity markets, increasing international competition, environmental concerns, and exchange rate fluctuations, the industry remains a prominent provincial economic driver. The mining and mineral products industry (including oil and gas) currently accounts for 4.1% of GDP and employs 2.3% of British

[6] BC Stats. *A Guide to the BC Economy and Labour Market*. April 2001.

Columbians primarily in regional communities throughout the province[7]. Some estimates place the average employee salary at about $80,000 per annum, making jobs in this industry amongst the highest paid in Region 250.

Although only 14 mines currently operate in BC, there are over 12,000 known mineral occurrences that hold promise for future development. Yet, a number of obstacles remain in the way of realizing further development and employment creation.

First, land use and tenure issues continue to be significant hurdles for the mining industry, which competes globally for investment dollars to fund new projects. Access to large tracts in the preliminary exploration stage has been limited. Lands once designated as multiple-use have been moved to single-use; the result of watershed planning initiatives, formation of provincial parks, designated agricultural lands, municipal lands and reforested areas. Even in those areas where mining companies own land, tenure tends to be uncertain. In an industry that demands significant initial capital outlays with a lengthy payback period, investment in new mining initiatives is unlikely to occur without security of ownership and/or guaranteed compensation for expropriation. The Panel also believes there is significant need to provide further certainty for the industry by bringing to a conclusion the Land and Resource Use Management Planning Process.

> ***"Mining in our region is a highly recognized untapped resource where we are working on attracting interested investors."***
>
> *RD 51 Bulkley-Nechako*

Second, in efforts to attract global investment dollars over other jurisdictions it is also essential that the regulatory environment be competitive. While the government has taken steps to reduce process duplication and to speed up regulatory decisions, continuing to rationalize procedures – without compromising environmental protection – is essential to attract further investment in what is a cutthroat internationally competitive industry.

Third, the Panel recognizes that the mining industry currently enjoys a substantial advantage over many other jurisdictions with electricity supplies that are abundant, secure and low cost by North American standards.

Oil, Gas and Energy

Oil and gas has been one of the few resource extraction industries to experience significant growth in recent years. Spurred by the discovery in 2000 of Ladyfern – one of North America's largest natural gas finds in the last decade – the industry has expanded rapidly in Northeastern British Columbia. And with the advent of the Alliance Pipeline connecting BC with Chicago, 2001 proved to be a record year for drilling in the province.

Recent industry growth shows few signs of decline, and promises significant future opportunities in Region 250. Experts estimate that trillions of cubic feet of oil and gas have yet to be discovered in the newly developed Northeastern fields.[8] New discoveries of coal bed methane deposits throughout Region 250 – estimated to be the largest deposits of their kind in Canada – along with

[7] BC Stats. *A Guide to the BC Economy and Labour Market*. April 2001.
[8] BC Ministry of Energy and Mines, *Fuelling the Future*. November 2001.

offshore oil and gas deposits mean that further growth is possible. Meanwhile growing demand in Eastern Canada and the US Midwest and Pacific Northwest – all of which are connected to BC via existing pipelines – should continue to encourage new exploration and development activity.

However, as with other resource based industries oil and gas requires significant investment throughout the exploration and extraction phase of a project. Here, like other land-based industries, problems gaining land access and securing tenure can have significant impacts on the willingness of investors to risk capital on BC based projects. Concrete solutions to Aboriginal relations questions, land use planning and related issues are vital for continued upside success in the industry. The Panel understands that lengthy regulatory decision and permitting procedures, as well as problems with inter-jurisdictional and inter-departmental efficiencies, sometimes constrain the cost effectiveness and timeliness of development initiatives. We believe ongoing efforts to reduce red tape, while continuing to oversee stewardship of the land base, are essential for future growth. We also encourage the provincial government to pursue development of offshore oil and gas in the Northwest, recognizing the longer term (i.e. 5-10 year) development horizon.

Third, the Panel believes that energy – broadly speaking – holds considerable promise as a means to generate additional basic income and regional employment opportunities. Whether it's hydro, oil and gas, coal, or methane-based, the prospect of electricity supply shortages in BC and elsewhere argues in favour of increased strategic focus on leveraging private capital to build new capacity in Region 250. A few large-scale projects utilizing private capital could provide very positive economic stimulus in Region 250.

Aboriginal Land Claims and Security of Tenure

> ***"The lack of resolution to land claims is a major deterrent to investment stability in our area."***
>
> *RD 55 Peace River*

Issues of access and security of tenure pervade any discussion of land-based industries in Region 250. Development of these industries is capital intensive, requiring significant up-front investment (in plants, facilities or exploration) that is only returned after a lengthy period of operation. Without sufficient guarantees of access to – or ownership of – the land base, investors in key resource dependent industries are unlikely to risk the capital that Region 250 requires for land-based economic development.

The Panel believes that lack of certainty over land use in many areas of the province, coupled with only modest progress in building business-Aboriginal partnerships and concluding modern-day treaties is inhibiting the development of crucial capacity in many Aboriginal communities and is hindering tangible economic development opportunities throughout Region 250. The Panel believes a three-pronged approach is necessary to both rejuvenate resource-based industries in Region 250 and address the challenges facing Aboriginal communities.

First, in the short-term government must demonstrate leadership by providing clear and consistent principles for consultation among governments, business and Aboriginal communities where land-based project development approvals and related considerations are involved. The Panel believes that without the certainty that only the Crown can provide through procedurally fair, com-

prehensive, predictable and final consultation processes, productive access for all stakeholders to Region 250's land base for wealth creation will not be possible.

Second, business must continue to take a leadership role in actively pursuing economic partnerships with Aboriginal people. This will provide Aboriginal people with desired employment and capacity building opportunities, while allowing economic development to proceed in the broader provincial interest.

Third, all parties must work toward modern day treaties recognizing that they will take time to conclude. In the meantime, non-treaty interim solutions must be given a higher priority to help spur economic development, build Aboriginal capacity, and support social progress.

Summary:

- Much of the activity within the forest industry occurs on Crown land, but there is a need to create more secure, private-like forms of tenure and a timber and log market to bring BC more into line with prevailing methods of resource allocation in key competitor jurisdictions;

- Tourism is a rapidly growing industry and BC is endowed with a world-class product, but the industry faces land use challenges, stiff international competition for the tourist dollar, problems with transportation access, and looming shortages of skilled workers. Failure to properly market or enhance the value of the "BC Experience" could lead to declining revenues for Region 250 and the province as a whole;

- The mining and oil and gas industries continue to play a vital and promising role in the provincial economy despite challenges at the regional and global levels, but without certain and secure access to the land base, new investment could be stalled;

- BC has abundant and low-cost electrical energy, but further attention to encouraging electrical generation from a variety of sources – hydro, oil and gas, coal or methane-based – should be considered to secure future BC supply requirements and as an additional source of basic income from export markets; and,

- Guaranteed land access and tenure for all stakeholders will significantly enhance the wealth generating capacity of the land base through restoring investor confidence, but this will also require: establishing procedurally fair and durable consultation mechanisms among government, business and Aboriginal people; more active engagement of Aboriginal people by business interests; and, continued efforts to conclude modern day treaties.

IV. Nurturing New Pathways For Regional Economic Development

Wealth creation from the land base will continue to drive BC's economy well into the 21st Century, especially if solutions are found to the numerous challenges and constraints facing resource and tourism industries. Yet, this will not be the only pathway to economic growth and employ-

ment creation – the global economy is changing and resource economies are experiencing significant limits on growth, particularly from an employment perspective. Lack of economic or industrial diversity leads to vulnerability to periodic boom-bust cycles and to declining terms of trade in world commodity markets. Increasing capital intensity in resource extraction industries in developed nations reduces the employment generating capacity of these industries, as recently seen in BC. And resource depletion – often combined with environmental concerns and growing demands on the land base from a variety of stakeholders – frequently limits the ability to extract resources indefinitely. The combination of these factors may restrict the wealth and employment generating capacity of traditional resource industries in some areas of the province.

> ***"With appropriate measures BC's resource endowment can continue to serve as a crucial element of the provincial economy, it seems equally clear that there will be considerable (and likely increasing) constraints on its capacity to 'lead' regional economic development and employment formation."***
>
> *Dr. Thomas A. Hutton, Centre for Human Settlements, UBC*

The Panel believes more value must be extracted from the province's extensive land base. Selling resources on global commodity markets – as BC has done for many years in the resource sector – means that the seller provides an undifferentiated product to a vast market place, and therefore has little or no control over pricing (a "price taker"). However, by creating products that have more value for the consumer, the producer holds significantly more power in the pricing process (as a "price setter") thereby increasing both margins and profits. Such activities – frequently termed value-added – entail either product differentiation (producing a product with greater value than those of competitors), or performing one or more additional steps in the production process (secondary production/processing).

> ***"Encourage expanded small scale initiatives such as community forests, Native band managed forest use or other models - keep more money in the province and create jobs in the regions which need them."***
>
> *RD 41 - Cariboo*

Globally, other resource-based economies have managed to survive similar economic changes to those currently being faced in Region 250. With resource endowments inferior to BC's, the forest industries in Sweden and Finland have survived by moving to extensive plantation methods and efficient wood product and paper mills, fishing and fish processing has prospered in Iceland, and, aquaculture, energy-based output and tourism have all expanded in Norway. The common thread among these jurisdictions is that they are quality leaders and price setters and have developed distinctive products of their own.

The Panel found, in response to our request for input, that there was significant knowledge of, and support for, secondary production processes amongst regional communities. These were especially prevalent with respect to the forest industry, likely in response to the many challenges the industry has faced in competing on traditional commodity markets in recent years. Useful suggestions for value-added alternatives ranged from experimenting with community-based forest tenures similar to existing ones in Mission and Revelstoke and developing new markets for timber regimes, to selling BC's leading edge forestry practices through training and research centres. The Panel believes there is considerable merit in such measures and encourages the government to explore these alternatives.

BC is certainly not without its own experience in product differentiation, innovation and branding. Familiar examples include the *BC Hothouse* and *VQA wine* brands, both successful in transforming low-priced products – which competed with difficulty in commodity markets against lower cost U.S. producers – to internationally recognized and valued brands capable of extracting premium prices from consumers. Similar successes are also evident in tourism (most prominently in Whistler) and aquaculture (as the price of smoked salmon in Asia would illustrate), to name just a few.

The above examples, while noteworthy, have not had the transformational effect at the industry or regional level that they have had elsewhere. The Panel believes that government must work with industry associations and firms to identify promising value-added opportunities in Region 250 along with the necessary conditions for those options to incubate, grow and succeed. Product differentiation, innovation, branding and secondary production all take advantage of BC's human capital and knowledge base – a subject we discuss in more detail later in the report.

The Panel believes effective development in specialized areas requires launching a systematic inquiry to identify the province's leading innovators. Regular, systematic identification of promising industries at an embryonic stage is imperative for future growth. By this we are not suggesting that government pick winners and losers – rather, identifying promising activities at an embryonic stage can be critical to realizing the full potential of an innovation through encouraging sharing of information and experiences. At the very least, this likely means more collaboration between industries and a greater role by industry associations to reduce fragmentation and increase cooperation.

Identifying Viable New Industry Clusters

As discussed previously, the process of cluster formation is an important one in any economic development initiative. Encouraging the development of clusters through provision of supportive infrastructure (as discussed in the following sections) creates a self-perpetuating process, encouraging further growth and reducing reliance on imports of goods, services and labour. It should be noted that Region 250 cannot – and should not – replicate clusters that have prospered in the Vancouver and Victoria CMAs. Instead, Region 250 will have to work with those resources it possesses in abundance. To this end the Panel's work has identified three emerging regional clusters – beyond the key one that exists in forestry – that we believe hold promise for future growth.

> ***"The technology sector is critical to the expansion of the BC economy and the prosperity of the province. Growth of the technology sector leads to the creation of high skill, high wage jobs, and an increase in innovation."***
>
> *KAST -Kootenay Association for Science and Technology*

First, *Information and Human Capital/Knowledge-Based* industries are still small or embryonic in Region 250. Even so there have been a number of growth industries in these two related clusters in the region. Major growth areas for Region 250 include information services and data processing (7.8% average annual growth from 1993-2001); other professional services (7.8%); management, scientific and technical services (9.9%); culture, information and performing arts (8.1%); and publishing industries (14.4%). The impetus for this group of industries will come in part from technology and 'older' product or service displacement. It may also occur on the basis of independent location, as firms migrate to

southern and central Vancouver Island and the Okanagan. The major stimulus, however, would emanate from new activity in major projects and resource sector development in the region. This expanded Region 250 market would create a larger domestic base, while leading to the innovation and scale necessary for export.

Second, *Recreation and Tourism* (as discussed earlier) holds significant promise for Region 250 – beyond the dominant Vancouver-Victoria-Whistler triangle. In a number of primarily recreation categories, Region 250 matches or surpasses Region 604 performance in the 1993-2001 period. In particular, scenic and sightseeing transportation (9.6%) and skiing facilities, golf courses and marinas have expanded significantly. In addition, recreation and vacation camps, hunting and fishing lodges, and the like have increased in size and number. Overall, the category of amusement, gambling and recreation industries has also expanded slightly ahead (8.9% annually vs. 8.4%) of the provincial average rate, as did accommodation services (6.0% vs. 4.0%). As this list suggests, scenic travel and outdoor recreation industries have not only been expanding, but may form the core of a recreation and tourism cluster for the region. This underscores the need for access and transportation including improved air services and some strategic highway projects.

Third, *Specialty Agriculture* likewise holds promise as an emerging industry cluster that could drive Region 250 growth. There is a striking difference in the agriculture sector between the Vancouver CMA and Region 250. In the Vancouver CMA, agriculture was the fifth-ranked sector in terms of 1993-2001 annual growth. In Region 250 it came last with both crop and animal production experiencing declines. The extent of the expansion of greenhouse products has clearly been instrumental in the Vancouver CMA's performance, in part due to advanced technological adaptation. Specialty crops and 'other' animal production have contributed to this growth. The Panel believes that there is some possibility that this can be replicated in Region 250. Aquaculture is one distinct growth possibility, not just for coastal areas but also for the inland fishery. Greenhouse technology may be capable of refinement for expansion in the Okanagan and Kamloops area, as well as Vancouver Island. These possibilities need further examination.

Provincial Marketing and Investment Strategy

Rejuvenating the wealth generating capacity of the land base – and nurturing "new pathways" towards innovative product development – will require extensive new business investment in Region 250. Following years of decline, international financial markets remain sceptical of the investment climate in BC and the ability to earn a competitive return on their investments. In a global economy where a multitude of jurisdictions are competing for scarce dollars and new business development, reducing taxation and the regulatory burden (as the government has already done) is an important first step in attracting capital. But such changes are futile unless they are communicated effectively – within and outside of government – and hold the promise of durability.

Communicating to other provinces and the world the extensive opportunities that BC's combination of resources, human capital, infrastructure and business friendly investment climate offers is essential. When organizing services to investors, trade missions, e-promotion, and other measures, it is important to include investment prospects in Region 250 as well as BC's urban areas.

Equally important is the need to provide assurance that changes in BC's investment climate are secure and long lasting. Building, maintaining and, of course, communicating the new reality of a stable and durable investment climate in BC is fundamental to economic development.

> ***"Gaining attention on the international business stage is costly and usually beyond the budgets of individual communities ...communicate to world markets that this province is open for business."***
>
> *RD 33 Thompson-Nicola*

The Panel takes special note of the importance of instituting a "one-window" web portal for new investment. We believe the government's current web site is insufficient as a tool to both promote investment and to facilitate regulatory decisions, financing and other steps necessary to bring new projects to fruition. During the last five years web-based portals have become an integral part of the investment attraction strategies of many jurisdictions and BC has not kept pace. The Panel suggests that government give higher priority to creating a "virtual investment centre" which would seamlessly integrate all local, regional and provincial agencies and industry associations with a stake in economic development. The government should explore the full range of consortia and public-private approaches to undertaking this critical work.

Ongoing Community Engagement

> ***"We need to have more input on what takes place in our area and have our input taken seriously."***
>
> *RD 39 Columbia-Shuswap*

The provincial government has made significant province-wide fiscal and regulatory reforms intended to encourage a more competitive overall business environment. Many of these macro level initiatives will no doubt have important effects on regional communities through encouraging new investment and business development. However, the distinct challenges facing many communities will call for targeted attention to address the different local needs of regional resource based industries and unique economic and social structures. Effectively addressing lagging regional economic and social performance will require a multi-tiered approach, which must be prefaced by a strongly articulated government commitment to regional economic renewal.

One essential step in improving policy decisions on regional development will be improving benchmarks of social, economic, and fiscal indicators at the regional level in British Columbia. The Progress Board has a broad inter- and intra-provincial benchmarking and advisory mandate. Presently data and resource limitations prevent further work at a sub-provincial level. Many agencies collect and analyze data within their respective mandates, and the Panel encourages government to make data collection and availability a higher priority. This will assist policy makers and regional interests in making well informed decisions, particularly concerning economic development.

> ***"There should be some consideration for a resource rent, or some other means of providing rural communities with a portion of the revenues that they generate through resource extraction for ... infrastructure."***
>
> *RD 43 - Mount Waddington*

Any government commitment to regional economic renewal must also include recognition of the important role of the regions themselves in the effort. The Panel heard from many communities that felt remote or disconnected from decision-making processes, which were frequently perceived as top-down and heav-

ily urban-focused. Allowing Region 250 more capacity to identify and utilize their own resources – be they physical, human or economic – should be given priority.

When questions about financing critical infrastructure, research and development, and economic development activities came to the fore in submissions from Region 250 interests, some expressed the view that regions do not reap enough of the economic benefits derived from resource extraction. Some suggested that there is a need to increase the economic development potential in Region 250 through retaining and reinvesting a portion of resource rents. The Panel believes there is considerable merit in this proposition. In fact, the Panel believes that the government should consider initiating a modest "resource dividend" which would see a portion of resource revenues "returned" to fund strategic infrastructure and research and development activity. It is hard to understate the importance of research and development and strategic infrastructure to the economic growth process. For example, making funds available to support life sciences research and development could help advance growth in our advanced forestry cluster, while helping to nurture university-based research in Region 250 embryonic clusters such as specialty agriculture and human capital/ information technology. In a similar fashion, advancing strategic transportation projects could help spur further tourism industry growth. The box below explains in more detail how the "resource dividend" could be structured and administered.

REGION 250 RESOURCE DIVIDEND FOR STRATEGIC INFRASTRUCTURE AND RESEARCH & DEVELOPMENT

Natural resource industries remain a cornerstone of the BC economy with 2002/03 direct natural resource revenues alone estimated to represent 15% of the BC government's overall own-source revenues. Yet, despite the importance of BC's resource sector, concern often arises that Region 250 does not receive sufficient benefits from the "fruits of their labour".

One way to ensure that a larger share of resource benefits accrue to Region 250 is to implement a "Resource Dividend", a notion that has precedent in other resource jurisdictions. Alberta and Alaska have both taken advantage of their resource wealth to build up substantial dedicated funds for a variety of purposes – e.g., to promote economic development or health and other academic research (Alberta), or to finance an annual citizen dividend (Alaska). For BC, the concept could entail government setting aside a dedicated portion of direct provincial resource revenues to finance targeted strategic infrastructure and research and development in Region 250. While Dividends would rise with increases in resource revenues, a minimum annual amount (or "floor") could be guaranteed (for example $285.3 million per year which is equivalent to 10% of 2002/03 direct provincial resource revenues). Although this is not a large sum, it could be substantial if combined with matching municipal, federal, or private funds. Leveraging scarce provincial dollars with an allocation formula that would apportion funds to supportive infrastructure and/or research and development activities with the *greatest prospect for contributing positively to economic growth*, could help drive new pathways in regional development. An independent panel, comprised of government, business and academic representatives, could make decisions on how and where to allocate funds to achieve the greatest incremental "bang for the buck".

Summary:

- The resource base continues to be a critical element of the BC economy and will continue to be for the foreseeable future, but more focus on secondary activity is necessary;

- BC has a few identifiable emerging industry clusters (outside of forestry) in Region 250, but nurturing them requires supportive infrastructure and increased systemic efforts to identify BC's leading innovators and enhanced collaborative efforts to share information and experience at the "embryonic" stage of development;

- British Columbia has a rare combination of resources, human capital, quality of life, and infrastructure that provide a "competitive advantage" over many competing jurisdictions, but we must continue to build, maintain, make durable, and communicate BC's new investment climate;

- British Columbia's regional communities appear committed to – and have the experience to offer in – making the changes necessary to spur economic development, but communities often feel left out of decision-making processes; and,

- Regional communities often receive little direct return from resource extraction in their areas, but returning a percentage of resource rents to regional communities to be invested in strategic infrastructure and research and development could help build new economic development pathways.

V. The Critical Role of Education

> ***"Learning and Innovation are fundamental to the revitalization of our traditional industries and to the development of the skills and knowledge necessary to support the creation of the new knowledge-intensive activities that will help drive economic growth."***
>
> *"Learning to Win" – Progress Board Education, Skills, Training and Technology Transfer Panel*

Strategic public investments in education at all levels are critical to a positive transformation in Region 250 economies. Global markets are undergoing fundamental changes, and those industries and sectors that show promise in the 21st century will all demand higher levels of human capital. An educated workforce is key to promoting innovation and facilitating the productivity improvements that are becoming increasingly necessary to compete in global markets, regardless of industry sector. Even in traditional resource extraction sectors, increased automation and capital intensity is reducing demand for unskilled labour and placing a higher premium on people with specialized skill sets. An educated and skilled workforce is proving – and will continue to prove – to be a cornerstone of securing investment dollars and attracting businesses to Region 250. But it is apparent that Region 250 has significant completion and access challenges.

> ***"Develop the educational infrastructure required to support entrepreneurial innovation and attract new investment opportunities to a region."***
>
> *RD 9 - Fraser Valley*

To begin with, there are significant disparities between the performance and completion rates of regional and urban schools. While rates vary significantly, there is an over-riding and appropriately concerning trend of lower educational performance in Region 250. The economic impact of this disparity is difficult to measure, but there is no doubt that lower achievement levels likely contribute to underperformance in the economy as a whole. A well educated regional population could increase the adaptability of the labour

force in the face of changing global market conditions (thus reducing vulnerability to cyclical fluctuations and investment trends), increase the tendency towards entrepreneurship and business development, and enhance the connectivity of regions to external markets and societies. In an attempt to address this divergence, the Progress Board's Education, Skills, Training and Technology Transfer (ESTTT) Panel has suggested a target of raising high school completion levels to 85% across the province by 2010. We concur with this key recommendation.

During the Panel's consultation process a number of respondents recognized that improving regional educational performance was vital to attracting businesses and people, to retaining current residents and to remaining competitive in the global economy. Several also pointed to the need to provide greater opportunities for post-secondary education at the local level. The fact that students must often leave regional communities to further their education was seen as a significant drain on local populations and economic potential. In an attempt to address this problem the ESTTT Panel suggests increasing the degree granting capacity of the province's post-secondary institutions. Responding effectively likely means the time has come to expand access in Kelowna to meet increasing demand and nurture research-driven economic development capacity. In other areas of the province, greater focus on distance learning will be required, including actively using e-learning solutions to meet the needs of learners, while aligning community college mandates with local labour market requirements.

> ***"Our major industries have no access to personnel with trade education and have stated this to be a continuous and major problem…stop the "youth" drain to the south that our region experiences even as industry tries to obtain and keep people."***
>
> *RD 59 - Northern Rockies*

We are also concerned – like the ESTTT Panel – with the completion gap between Aboriginal students and the general K-12 student population. This problem has a number of important implications for many of BC's regional communities. Raising both the number of graduates in K-12 and levels of post-secondary participation and completion is critical for BC's social and economic development moving forward. Perhaps past success in this area could provide a blueprint for future endeavours. The Native Indian Teacher Education Program (NITEP) at UBC – for example – has succeeded in markedly increasing the number of native teachers graduating in the past decade. Similar programs in other professional, technical and trade programs – in association with suggested province wide changes across the learning system recommended by the ESTTT Panel – will serve to increase the number of skilled Aboriginal students entering the workforce. The Panel concurs with the ESTTT Panel's recommendation to work towards increasing Aboriginal participation and completion in both K-12 and post-secondary studies.

A third area of concern, which will impact the economic performance of regional communities, is BC's low participation rate in skilled trades, technical programs and apprenticeships at the secondary and post-secondary levels. Many industry associations have identified skills shortages (either current or looming) in a variety of fields. For Region 250 such shortages will have significant implications in resource-based and secondary industries alike. Extending the provincial reach of existing reputable technical institutions such as the British Columbia Institute of Technology into Prince George and Kelowna would work to address this shortage and aid economic development in both existing and emerging industries.

Summary:

- BC has a high quality K-12 educational system, but regional disparities in completion and performance outcomes likely inhibit the ability of Region 250 to attract business investment, spur innovation and encourage entrepreneurship in today's increasingly knowledge-based economy;

- Regional communities recognize the importance of increasing the education levels of their workforce and populations in order to retain business opportunities in their communities, but local access and capacity constraints mean that residents often must leave communities, exacerbating existing demographic and economic development problems;

- Aboriginal communities are a vital part of Region 250's economic and social fabric, but low graduation and enrolment rates (even relative to overall regional rates) are inhibiting the ability of these students to reach their potential;

- BC has internationally recognized technical training institutions, but the low profile and low enrolment rates in skilled trades has lead to a critical shortage of skilled technical workers in many areas of the province; and,

- BC has quality regional educational institutions, but it may be time to consider full university accreditation in Kelowna; extending the provincial reach of the British Columbia Institute of Technology into Kelowna and Prince George; and, placing more efforts on e-learning solutions in Region 250.

VI. Transportation and Communication Infrastructure

Without adequate transportation and communication infrastructure economic growth in any economy is difficult. Region 250 is no exception. Transportation infrastructure promotes development through allowing access to, and mobility of, resources, consumers and workers. Communication infrastructure facilitates information flows and knowledge between businesses, residents and communities. For BC's heavily resource-based regional economies – with industrial structures and greater distances dividing productive areas from labour forces, capital, and markets – adequate infrastructure is essential for development.

> ***"Improve transportation infrastructure to improve accessibility and decrease conflicts between industrial traffic and tourism."***
>
> *RD 23 Alberni-Clayoquot*

The critical impact of infrastructure on the size and direction of trade flows and on aggregate productivity has been studied extensively and the history of BC itself provides a superb illustration of the transforming power of transportation and communication facilities and services. Opening of the province's regions to economic development began in the 1860s with the Cariboo Road followed soon after by railways and telegraph and telephone facilities in the 1880s and 1890s. Building a provincial highway system, pipeline transportation for the energy sector, the BC ferry system, port facilities, airports and air services, and the recent expansion of broadband

> ***"In order to attract knowledge workers or otherwise reduce our dependence on resource industries, we absolutely must have the necessary infrastructure and we must have it soon."***
>
> *RD 1 - East Kootenay*

access to a number of communities have all served to further connect resource rich regions of BC with markets across the province and around the globe.

The growing demand for access, which fuelled BC's historic infrastructure investments in Region 250, has by no means subsided. Today highways, ferries and airports support transportation of consumers, workers and a growing tourist trade. Meanwhile freight transportation facilities such as road, rail, pipelines, air and shipping facilitate movement of goods and resources. Clearly with so much of the province's total GDP dependent on export production, getting goods and services produced by Region 250 to external markets effectively and efficiently is a challenge that impacts the prosperity of the province as a whole.

During the Panel's consultation process with Region 250 interests many respondents expressed concern that deteriorating and inadequate transportation and communications infrastructure may be inhibiting the ability of regional economies to reach their potential. Inaccessibility, extended travel times, roads in disrepair, and congestion of transportation arteries all serve to increase the costs of doing business, thereby reducing the likelihood of investment or expansion. Meanwhile, inability to access broadband services in many communities – the infamous "Digital Divide"– is also viewed as a deterrent to potential business investment, the majority of which now relies on increasing degrees of connectivity to operate. The Panel believes that infrastructure holds the key to further development in many areas of Region 250, and we understand and concur with the sense of urgency expressed in many submissions received.

> ***"The important contemporary policy task is to identify situations where improvements in transportation (and communication) can have the transforming effects that are so familiar in thinking about BC's history."***
>
> *Dr. John M. Munro, Department of Economics, Simon Fraser University*

Despite the clear role that infrastructure plays in economic development it is important to realize at the outset that infrastructure, although a necessary input, is no guarantee of prosperity. While it is essential to target areas where regional economies are being inhibited from realizing their economic potential due to insufficient transportation and communication infrastructure, investments without a sound economic basis will just as easily inhibit growth by diverting capital away from productive activity. The Panel believes that the essential task for policy makers is, therefore, to carefully target those projects that will help reinvigorate regional economies and drive further growth.

> ***"Access to high speed Internet for rural and remote communities would allow us to attract business and industry into our areas."***
>
> *RD 25 Comox-Strathcona*

There are a number of areas where a lack of sufficient infrastructure may have – or soon may – restrict economic development and the attraction of scarce investment dollars. For example, highway transportation – far and away the predominant transportation mode used in Region 250 – is experiencing significant funding shortfalls with annual per capita provincial government expenditures on road

operations and maintenance falling from $181 in 1991 to a planned $83 by 2005 (in 1997$).[9] Without sufficient funding, capacity and safety concerns in many congested areas may increase.

The Panel is concerned that commercial passenger transportation appears to be becoming less accessible for many regional residents. For example, monopoly situations in air service have led – in some regions – to more expensive services and/or service curtailments. The Panel believes that the province should encourage the federal government to press for reciprocal cabotage rights for US and Canadian airlines. The problem of monopoly service provision is apparent, to varying degrees, within all sectors in both freight and passenger transportation modes. A leading example exists in the tourism sector, where increased costs and reduced services (air, ferry and rail) present a serious barrier to regional industry growth, not least because of the uncertainty this generates over future accessibility.

The Panel notes concerns expressed in Region 250 about difficulties BC Rail currently faces. We encourage the provincial government to continue to work with local communities affected by the impending closure of BC Rail passenger services to identify viable commercial alternatives. We also encourage the government to focus on efficient, market-driven freight service provision while expediting efforts to bring about more private sector wealth creation from the provincial land base.

We also note that the entire province suffers from freight congestion in the Lower Mainland, with much of the cargo originating in Region 250. Alleviating downstream "choke points" in the Lower Mainland is in the broader provincial and – in many cases – national interest. The province's infrastructure is heavily interdependent and should be based on an integrated systems approach developed in conjunction with regional input and expertise. The Panel encourages the government to continue and expedite efforts to conclude a provincial transportation plan. In the short to medium term, the government should identify and take action on five to ten key growth-enhancing projects in Region 250, while taking steps to address Lower Mainland bottlenecks.

Turning to communications, lack of affordability and accessibility are identified as problems that inhibit business development and competitiveness. The Panel believes that finding affordable and timely solutions to bridging the digital divide will be increasingly important in overall efforts to enhance prospects for attracting and retaining knowledge-based workers, while providing critical infrastructure for e-learning and enhancing economic development prospects within regional communities. We believe that the province should partner with the federal government and the private sector to bring broadband access to a greater number of Region 250 communities.

The Panel recognizes that financing necessary transportation and communications infrastructure along with other infrastructure in Region 250 within the current context of fiscal retrenchment may be difficult. While public-private partnerships hold promise for attracting private capital to some projects, lower utilization rates in many regional locales will mean that government will have to fund most regional transportation and communications projects through a greater contribution from general revenue.

[9] Transport Canada, *Transportation in Canada*, 2001. BC Ministry of Transportation, *Service Plan 02/03-04/05*

Summary:

- BC is generally served by high quality transportation and communications infrastructure, but attention must be continually paid to areas where infrastructure capacity limitations are actually constraining growth and investment by increasing business costs. Key investments in such areas can be highly productive and spur economic growth;

- Monopoly situations in essential transportation services frequently serve to both increase costs and reduce accessibility, thereby restricting access to Region 250 and its resources; and,

- Public-private partnerships offer a potential solution for funding constraints, but these arrangements will not be immediate and may not address all infrastructure needs within the province's regions where lower traffic volumes exist.

VII. Conclusions and Recommendations

In its initial benchmarking report, the Progress Board set targets to restore BC to an economic leadership position within Canada by 2010. These targets are set at a challenging time in the province's history. While GDP, productivity, corporate profits and personal income have all declined in relative terms across the province, Region 250 has been hit harder than the province's urban areas – areas that generally kept pace with average annual economic growth rates for Canada during the 1990's.

The Panel is struck by just how dedicated Region 250 communities are to their own survival. They believe in a vision of a prosperous future and are ready to make the tough choices necessary to realize it. With abundant resource endowments, a high quality of life, and a population committed to using their knowledge to solve problems and spur growth, Region 250 has the tools necessary to succeed in the 21st Century.

The Panel's report details a three-pronged approach to ensuring that challenges currently facing Region 250 are met. First, we must restore the wealth generating capacity of the land base, currently hampered by regulatory delays, tenure and access uncertainty, unresolved Aboriginal land claims, and poor international market conditions. Second, renewal will require looking for new ways of generating more value from the province's resources by systematically identifying and nurturing BC's leading innovators and emerging industry clusters, while communicating BC's advantages and the durability of the province's "new" investment climate to other provinces and the world. Third, government must maintain and improve supportive transportation, communications and education infrastructure that – first and foremost – enhance the prospects for spurring economic growth.

With this carefully targeted approach the Panel strongly believes that Region 250 can – and will – continue to play a vital role in a thriving and prosperous British Columbia. Our key strategic recommendations follow.

PROGRESS

RECOMMENDATIONS

Restoring the Wealth Generating Capacity of the Land Base

Increased certainty over access to and use of the land base is necessary for resource and tourism industries to thrive and for capital markets to be reassured of the long-term security of capital investments.

1. The government should focus more effort on improving Aboriginal relations and resolving land claims through a three-tiered approach:
   - Clearly define and implement procedurally fair and durable consultation mechanisms;
   - Encourage business-Aboriginal economic partnerships; and,
   - Streamline and expedite, wherever possible, efforts to conclude modern day treaties.
2. The government should institute market-based reforms to forest policy, including:
   - The creation of a robust timber and log market;
   - Continue with efforts to reform the *Forest Practices Code* by introducing more performance-based methods of regulation;
   - Allow for additional community-based forest tenure arrangements where suitable; and,
   - Take aggressive action to halt the spread of the Mountain Pine Beetle epidemic.
3. The government should finalize all remaining Land and Resource Use Management Plans to bring certainty for resource development proponents and other users of the provincial land base.
4. The government should expedite general regulatory reforms and efforts to reduce general business taxes:
   - In addition to reducing the overall quantum of regulations, focus more attention on expediting regulatory decision making processes within all provincial government agencies; and,
   - When fiscal circumstances permit, move to reduce business taxes to bring them into line with prevailing rates in Alberta.
5. The government should identify and expedite the development of large-scale private sector financed and managed growth-driving resource projects — e.g. coal-bed methane, natural gas, mines, etc.

6. The government should encourage and if possible expedite private development of electricity generation by hydro, coal, natural gas and other means to meet future BC needs, while providing additional basic income from export markets.

7. The government should actively pursue the development of offshore oil and gas in Northwest British Columbia.

8. The government should commit additional financial resources to marketing the tourism industry to place it on a level playing field with leading competitor jurisdictions.

Nurturing New Pathways for Regional Economic Development

The government should encourage the economic diversification and development of Region 250.

9. The government should promote and nurture the growth of secondary industries, business innovation, and research and development within key emerging industry clusters through a systematic approach that involves:

   - Provincial ministries and agencies making the collection and provision of high quality information and data relating to Region 250 for community and business interests a priority;

   - Regularly and systematically identifying specialized industries and leading innovators within the advanced forest cluster and emerging Region 250 clusters (i.e. information and human capital/knowledge-based, recreation and tourism, and specialty agriculture) to encourage sharing of information and experiences; and,

   - Encouraging industry associations to adopt a more active "business development" role to reduce fragmentation of ideas, increase sharing of information between individual businesses, and enhance cross-sector cooperation.

10. The provincial government should consider a "resource dividend" for Region 250 in the amount of 10 per cent of direct provincial resource revenues to be administered by an independent panel comprised of Region 250 business and community leaders for the purpose of leveraging additional funds (federal, municipal and private) to be invested in supportive infrastructure and research and development.

11. The provincial government should immediately begin a carefully targeted campaign, in partnership with communities throughout the province, to communicate to international markets the strength of BC's competitive advantage and the province's changed and durable investment climate. This includes:

    - Detailing investment prospects in Region 250 as well as BC's urban areas when organizing services to investors, trade missions, e-promotion and other marketing measures;

- At the earliest possible opportunity, instituting a "one-window" web portal for new investors;

- Creating a "virtual investment centre" to seamlessly integrate all local, regional and provincial agencies and industry associations with a stake in economic development; and,

- Considering the full range of consortia and public-private approaches to undertaking this work.

Supportive Infrastructure: Education

12. The government should take steps to improve educational performance and access in Region 250, in part, by:

    - Targeting an increase in the general Kindergarten to Grade 12 Provincial graduation rate to 85% by 2010 in line with the Progress Board's Education, Skills, Training and Technology Transfer (ESTTT) Expert Panel recommendation;

    - Working towards an increase in Aboriginal completion and participation in both K-12 and post-secondary studies;

    - Extending the mandate of one of the existing five provincial Universities to Kelowna to increase access and develop leading-edge research-driven economic development capacity in the fast-growing south Okanagan;

    - Making e-learning solutions more available to meet the needs of distance learners;

    - Continuing to encourage regional colleges to align their mandates more closely with local labour market needs and promising "embryonic" business opportunities; and,

    - Extending the trades and technical program delivery mandate of the British Columbia Institute of Technology to Kelowna and Prince George as part of overall provincial efforts to address looming skill shortages and to build high-quality human capital in these two census agglomeration areas.

Supportive Infrastructure: Transportation and Communications

13. The provincial government should invest in supportive transportation and communications infrastructure that provide the greatest prospect for contributing positively to economic development and growth. Specifically, the provincial government should:

    - Continue and expedite Ministry of Transportation efforts to develop an integrated pro-

vincial transportation plan that includes input from Region 250 stakeholders which:

  - Targets the top 5-10 transportation projects for action/improvement that will enhance economic development and growth; and,

  - Targets key bottlenecks in the Lower Mainland which are important to the broader provincial interest for action/improvement.

- Work with the federal government (and municipalities) to improve air transportation access in Region 250 through targeted infrastructure improvements and efforts to establish reciprocal cabotage rights for Canadian and US airlines;

- Focus on efficient, market-driven BC Rail freight service in Region 250, while expediting efforts to bring about more private sector wealth generation from the provincial land base;

- Continue work with local communities affected by the closure of BC Rail passenger services to identify sustainable commercial alternatives to passenger rail service;

- Maintain and enhance ferry access in Region 250; and,

- Maintain and enhance provincial highways, by incrementally restoring per capita provincial highways funding to 1991 levels.

14. In accord with the recommendations of the Premier's Technology Council, the provincial government should partner with the private sector and other orders of government to provide timely and cost-effective bridging of the "digital divide".

15. The government should address funding constraints for strategic and economically productive transportation and communications infrastructure through: public-private partnerships; leveraging federal and municipal funds; and, general revenue.

APPENDIX A: "PROJECT 250: REGIONAL ECONOMIES" EXPERT PANEL MEMBERS

Mr. Pat Corbett (Chair), Owner, The Hills Health Ranch (BCPB Member)

Mr. Lawrence Bates, President & CEO, Sun-Rype Products Ltd. (BCPB Member)

Mr. Robert Fine, Executive Director - Economic Development Commision, Regional District of Central Okanagan

Mr. Don Gould, Former President & COO, The Pas Lumber Company Ltd. (BCPB Member)

Dr. Michael A. Goldberg, Associate Vice President - International, University of British Columbia

Dr. Tom Hutton, Associate Professor, University of British Columbia, Centre for Human Settlements

Dr. Charles Jago, President, University of Northern British Columbia

Dr. Norman Keevil, Chairman, Teck Cominco Limited (BCPB Member)

Mr. Tim McEwan, Executive Director, BC Progress Board

Dr. Jock Munro, Professor of Economics, Simon Fraser University

Mr. John Winter, President, BC Chamber of Commerce

EX-OFFICIO MEMBERS

Mr. David Emerson, President & CEO, Canfor Corporation (Chair, BCPB)

Mr. Jock Finlayson, Executive Vice President – Policy, Business Council of BC (BCPB EAG*)

Dr. Richard Harris, Telus Professor of Economics, Simon Fraser University (BCPB EAG)

Dr. Maurice Levi, Bank of Montreal Professor of International Finance, University of British Columbia (BCPB EAG)

Mr. Helmut Pastrick, Credit Union Central of BC (BCPB EAG)

BC PROGRESS BOARD STAFF

Mr. Joel Emes, Senior Analyst

Ms. Wren Montgomery, Co-op Student

Ms. Karen Tan, Administrative Coordinator

*BCPB EAG – BC Progress Board Economic Advisory Group

APPENDIX B: BC PROGRESS BOARD MEMBERS

Mr. David Emerson (Chair), President & CEO, Canfor Corporation

Mr. Lawrence Bates, President & CEO, Sun-Rype Products Ltd.

Mr. Alex A. Campbell, President, Thrifty Foods

Mr. Pat Corbett, Owner/ President, The Hills Health Ranch

Mr. Herman Driediger, CEO, Eze Rent-it Centre Ltd.

Mr. Don Gould, Former President & Chief Operating Officer, The Pas Lumber Company Ltd.(Retired)

Dr. Norman Keevil, Chairman, Teck Cominco Limited

Mr. Derek Lee, President, Prospero Int'l Realty Inc.

Mr. Jim Pattison, Chair, President & CEO, The Jim Pattison Group

Mr. Michael Phelps, Chairman of Advisory Board, Duke Energy Gas Transmission - Canada

Dr. Martha Piper, President & Vice-Chancellor, University of British Columbia

Ms. Stephanie Sharp, President, Ferax Capital Corporation

Mr. Ken Shields, President & CEO, Raymond James Ltd.

Mr. Mark Shuparski, Executive Vice President, Bentall Capital

Dr. Gerri Sinclair, General Manager, MSN.ca

APPENDIX C: INPUTS TO "PROJECT 250: REGIONAL ECONOMIES"

The following papers were commissioned for *Project 250* to better inform the Panel's work on regional economies. The findings of these reports have been incorporated throughout *Restoring British Columbia's Economic Heartland.*

British Columbia at the Crossroads: New Regional Development Pathways for the 21st Century

Prepared By: Dr. Thomas A. Hutton, University of British Columbia

A qualitative analysis of regional development processes and issues is offered based on a thorough review of existing regional development literature. From this analysis the potential policy implications for Region 250 are assessed.

Fixing Forestry: BC's Main Economic Driver

Prepared By: BC Progress Board Staff

After briefly detailing BC's historic and current economic reliance on the forest industry, this report describes current challenges and makes broad recommendations for reform, recognizing that rejuvenation of the industry is vital for the province's economic well-being.

Growth Drivers in British Columbia: The Search For Industry Candidates

Prepared By: John de Wolf, CCG Consulting Group Limited

This study provides a detailed quantitative analysis of the current state of economic performance in Region 250, based on detailed industry and employment data. The study identifies a number of industries that appear (given current growth data) to hold promise for economic growth.

Learning to Win

Prepared By: Education, Skills, Training and Technology Transfer Expert Panel

Working in parallel to the *Project 250* Panel, the Progress Board's ESTTT Panel prepared this report on BC's "learning systems". The report analyzes the current performance of BC's education systems, details future requirements, and outlines strategies to build a more integrated life-long educational system.

Project 250: Consultation Process Report

Prepared By: BC Progress Board Staff

This report provides a summary of the responses received from various interests across the province in answer to the Panel's request for input on challenges and opportunities faced by regional communities.

Transportation and Communication and the Regional Economies

Prepared By: Dr. John M. Munro, Simon Fraser University

The report provides an analysis of how strategic investments in transportation and communication infrastructure could contribute to improving economic performance in Region 250. Analysis of existing capacity is followed by prescriptions for strategic future investments.

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